Wealth Bulletin

ElaraWealth

Economy and Market Outlook

Equity

Markets witnessed fresh wave of optimism from the companies reporting annual results & outlook for coming years have been key factors driving the markets on the positive direction. Further, Policy priorities from the government, outcome of elections and forecast of monsoon will remain key triggers driving the markets in near term.

RBI reduced repo rate by 25 bps to 6.00% in its second bi-monthly monetary policy meet. It projected GDP growth for 2019-20 at 7.2%, down from 7.4% projected for 2018-19 – in the range of 6.8-7.1% in H1:2019-20 and 7.3- 7.4% in H2.

The dovish stand across the globe, recent change in stance of Federal Open Market Committee (FOMC) and announcement that there will no rate hikes, which was followed by other central banks, including the European Central Bank, Bank of England and Bank of Japan, have led to increased liquidity in the system and propelled markets across the globe and in India.

As against a lull seen over the past year, FPI flows turned sharply positive in February 2019 at USD 2.4bn and at USD 4.8bn in March 2019. We expect FPI flows to continue on the back of 1) The Fed's rate pause induced decline in dollar strength, and 2) India's standing vs other exports-oriented emerging market (EM) in a growth-challenged global environment.

We remain constructive on equities backed by the expected buoyancy in the corporate earnings in the upcoming years and reasonable valuations post the consolidation phase of last calendar year.

Debt

Government bond prices ended flat and off earlier highs. Yield of the 10- year benchmark 7.26% 2029 paper settled at 7.35% on April 5, steady compared with March 29. What remains a concern is RBI's commentary on domestic inflation expected to be affected by EL Nino in 2019. CPI Inflation stood at 2.57 percent in February compared to revised 1.97 percent in January 2019 due ease in the fall of food prices and abrupt reversal in vegetable prices in summer months.

India's fiscal deficit for April-February 2018-19 was Rs 8.51 lakh crore as against the revised estimate (RE) of Rs 6.34 lakh crore for the entire year, which continues to remain the concern for the longer end of the yield curve.

The rupee rose earlier last month aided by intermittent gains in domestic equities and exporters' dollar sales. However it was under pressure this month, tracking decline in the domestic equities after RBI retained a neutral stance while flagging inflation and fiscal risks. We expect rupee to trade range bound in the near term.

Credit spread has started narrowing down post central bank decision of buying dollar/rupee swap amounting $5 billion in the three year tenor. This will further give liquidity boost to overall banking system and aid reducing short term borrowing cost.

We continue to like accrual funds over gilt. Funds with average maturity of two to three years are well placed to relatively outperform other debt funds. Categorically, Short duration funds, Banking & PSU debt funds and ultra short term funds continue remain in the traction.

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Midcap Fervor

Midcap Fervor

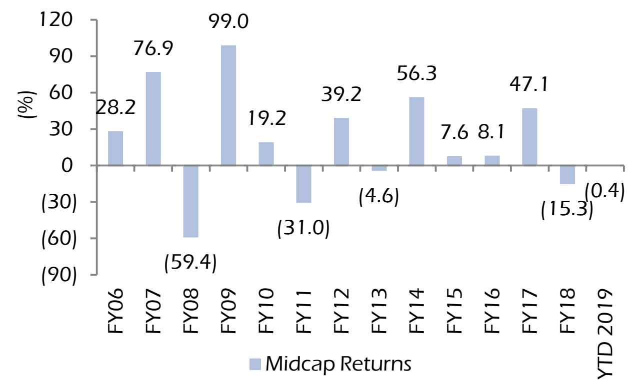
Midcap continues to represent India's growth story more powerfully than large caps. After posting a high in Jan'18, midcaps underperformed large caps in 2018 and shed their four year streak of outperformance to large caps. YTD, the mid caps (-0.75%), continue to underperform the Nifty (5.5%), amidst concerns around global economic slowdown, decelerated domestic growth outlook for FY19 GDP and enhanced volatility ahead of general elections in May'19. We expect bouts of volatility to persist in the run up to General Election 2019 which should be capitalized as an incremental buying opportunity. We expect a revival in mid caps performance on the back of: (1) price and valuation comfort based on historical trends; (2) strong flows from FPIs and DIIs; and (3) strong earnings revival due to fall in commodity prices and spur in consumption.

1. Historical evidence on price support and valuations

Historical analysis of midcaps reveals that (a) there has never been two consecutive years of negative returns; and (b) the positive returns in the year after negative returns have always exceeded the negative returns. Based on this observation, we expect the return from midcaps to exceed 15% in CY'19 as against -15.3% in CY'18.
The relative valuation of midcaps vs large caps are at a historically low level, both at an absolute level as well as on a rolling basis, with 7 DMAs at 2014 levels. With four year midcap – large cap premium practically wiped out, we now believe that valuations are reasonable to support midcap recovery.

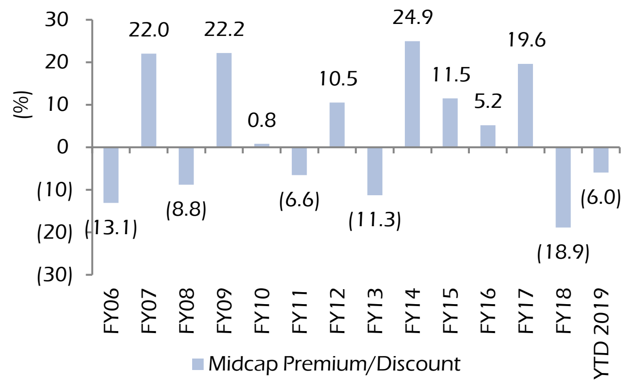
Our "What's in the price" proprietary framework also reinforces our view that midcaps are reasonably valued. The Long Term Growth Value (LTGV – value attributable to earnings growth beyond the next 2 years) of 53% is lowest since FY'14. That said, the 30% (highest ever) Short Term Growth Value (STGV- value from earnings growth over the next 2 years) reflects optimism on earnings expansion.

Exhibit 1: Midcaps have not had two consecutive years of negative returns so far...



Source: Bloomberg, Elara Securities Research

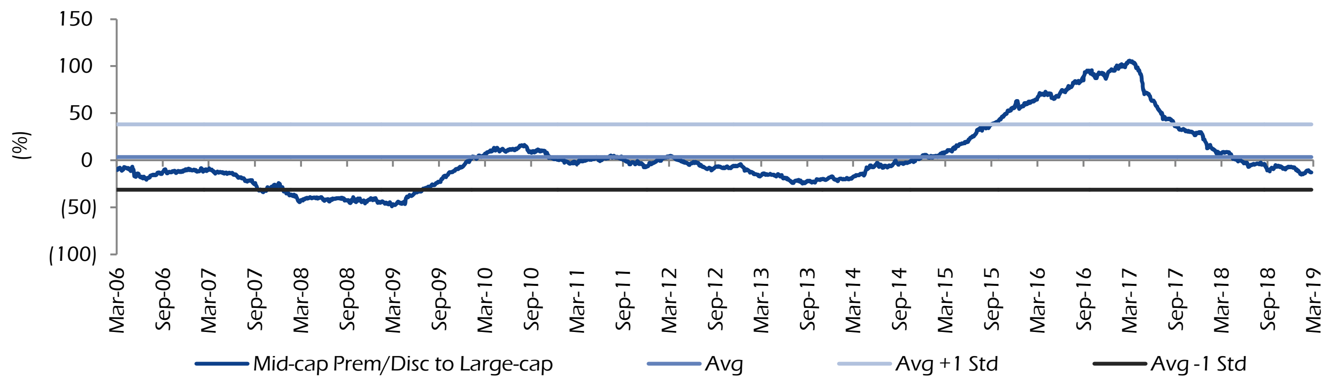
Exhibit 2: ...Midcaps trade at a discount to largecaps



Source: Bloomberg, Elara Securities Research

Midcap valuation discounts are at historical high levels...

The relative valuation of midcaps vs large caps are at a historically low level, both at an absolute level as well as on a rolling basis, with 7 DMAs at 2014 levels. Now that the four year midcap – large cap premium has been practically wiped out, we now believe that valuations are reasonable and a midcap recovery is in the offing.

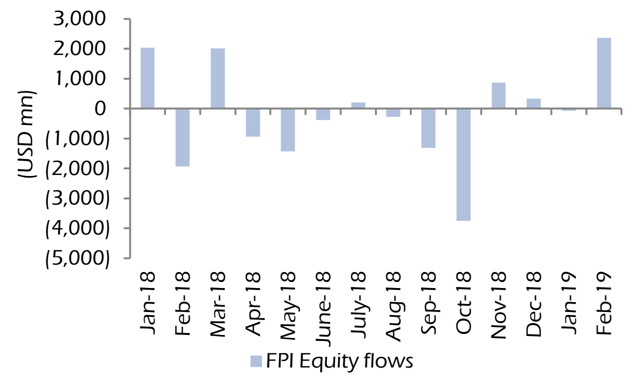


2. Strong Institutional flows to support rally

We expect strong FPI flows in CY19 taking into cognizance (a) pause in Fed rate hikes which in effect weakens the dollar index and makes EMs more attractive for FPI flows; (b) attractiveness of India relative to other EMs in a challenging global growth environment – India which is a consumption led economy is well placed unlike other EMs which export mainly to China; and (c) earnings recovery which is round the corner.

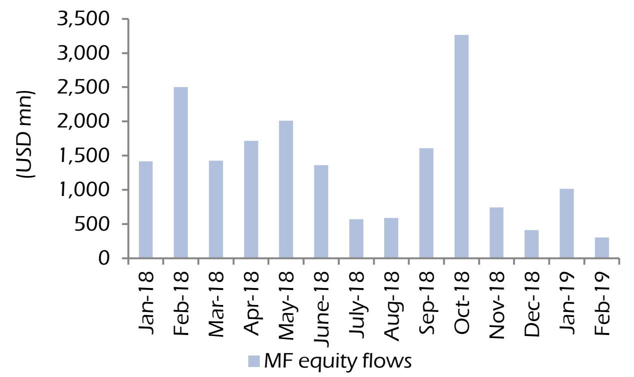
DII flows are also expected to be strong - though lump sum investments have decelerated, SIP flows continue to be strong at ~ INR 800 Bn. The strong market recovery and decline in interest rates makes equity markets more attractive from a lump sum flow perspective as well. Traditionally, FPIs have preferred large caps but the larger among the midcaps will increasingly grab FPI attention due to their market cap and better liquidity, in our view. 34 midcap stocks (daily turnover in excess of USD 10 mn) provide additional options to FPIs to invest.

Exhibit 3: Strong FPI flows since Feb'19



Source: Bloomberg, Elara Securities Research

Exhibit 4: MF flows to turn positive

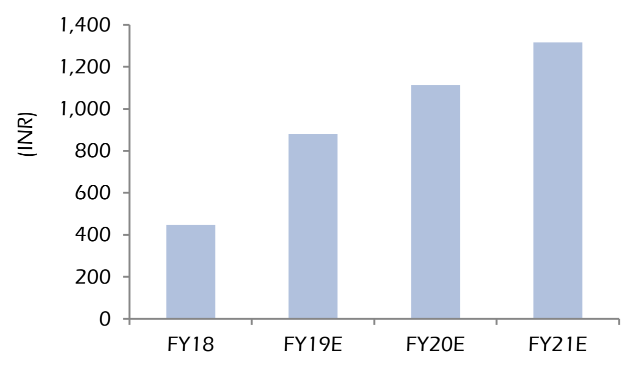


Source: Bloomberg, Elara Securities Research

3. Expectation for strong earnings recovery in midcaps

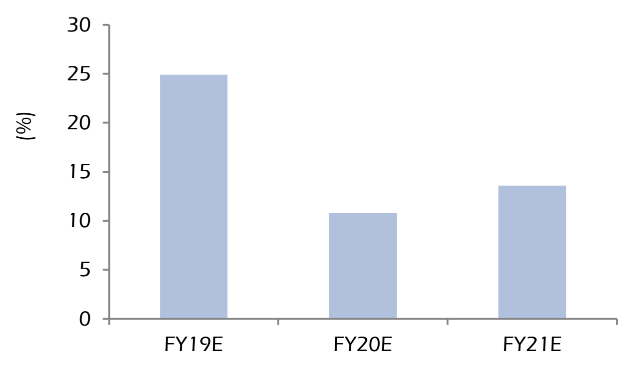
The Nifty midcap consensus EPS CAGR between FY19-21 is at 22.4%, which provides a strong fundamental support, in our view. The Nifty Midcap100 EPS growth which incorporates for PSU bank earnings bounce back in FY'19, looks steep (YoY EPS growth of 97%) but on an ex-fin basis, FY'19 earnings growth stands at 25% and the FY19-21 earnings CAGR is expected to be around 12%.

Exhibit 5: Nifty Midcap 100 EPS growth strong



Source: Bloomberg, Elara Securities Research

Exhibit 6: Sharp increase in EPS expected in FY19



Source: Bloomberg, Elara Securities Research

Midcap stock recommendations

In the current environment, we recommend: (1) Quality stocks that fulfill Elara Quality Portfolio-Midcap (EQP-M) criteria and (2) Beaten down midcap stocks with strong earnings visibility.

Quality Stocks

We define quality stocks as those with a combination of high and consistent ROCE, increasing or stable operating Margin, free cash flow positive, low leverage and high revenue growth. We have used the below methodology to draw up a list of mid-cap stocks from a universe of stocks with market capitalization rank of 100-250.

- ROCE Score: To identify value creating companies, we screened for companies that have ROCE >15% in at least 4 out of the last 5 years have been considered.

- NOPAT Score: As a measure of pricing power, cost control and operating leverage, companies that showed Increasing or stable trend in NOPAT margin have been considered. The tolerance for stability is set at 10%. For Example, if a company's NOPAT margin is 10% in year 1, we expect that company's margin to be greater than 10% in year 2 or at least not below 9%.

- Leverage score: To identify companies that fund growth from internal accruals and low financial risk, companies with net debt to equity ratio less than 1 in the latest FY have been scored.

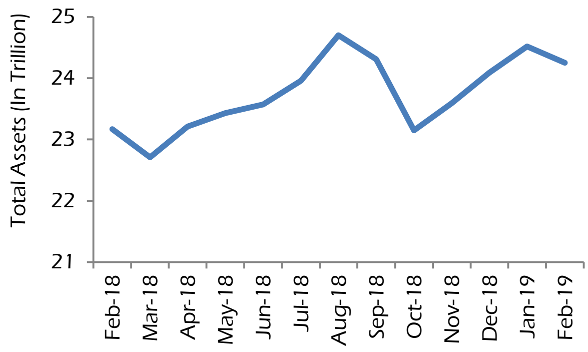
- Free cash flow yield: To analyze a company's ability to generate free cash flows on the capital it employs, we Identified companies with FCF yield that is positive in at least 4 out of the last 5 years.

- Overall Score: Companies that score in each of the above 4 criteria have been considered for the final list.

	Elara Rating	Bloomberg Rating	Market Cap (INR mn)	ROCE (%)	NOPAT (%)	Net Debt/Equity (x)	FCF/Capital employed (%)
Abbott India	Not rated	4.3	1,56,308	36.6	10.9	-0.6	9.8
Astral Poly	Accumulate	3.2	1,33,183	23.6	8.3	0.1	25.4
Avanti Feeds	Not rated	5	55,650	87.6	13.5	-0.5	26.7
Bayer Crop Sci.	Reduce	3.4	1,48,060	18.3	9.6	-0.2	3.7
Berger Paints	Not rated	3.7	3,03,041	29.6	9	0	5.4
Cummins India	Accumulate	3.5	2,06,708	15.5	13.7	-0.2	8.3
Endurance Tech.	Not rated	3.6	1,61,769	23.9	6.2	0.1	11.5
Hexaware Tech.	Not rated	3.7	1,01,740	34.1	11.5	-0.3	21.9
Indraprastha Gas	Accumulate	4.3	2,13,570	31	14.6	-0.4	13.6
Kansai Nerolac	Not rated	3.9	2,47,418	25.1	9.5	-0.3	0.5
L & T Infotech	Buy	4.4	2,88,091	32.8	12.7	-0.4	23.5
L&T Technology	Reduce	4.2	1,54,746	30.7	11.4	-0.2	20.5
Page Industries	Not rated	3.5	2,62,632	68.2	13.6	-0.3	52.7
Sanofi India	Accumulate	4.6	1,28,960	23.1	11.9	-0.4	20.1
Schaeffler India	Not rated	3.9	89,810	20.1	10.4	-0.5	12.1
SKF India	Not rated	4.4	1,00,024	21.1	9.6	-0.4	17.1
Solar Inds.	Not rated	4.5	94,671	24.5	12.6	0.3	4.5
Symphony	Not rated	3.1	90,612	43.9	19.9	-0.7	17.4
WABCO India	Not rated	3.1	1,17,937	26.3	8.9	-0.5	24.5
Whirlpool India	Not rated	3.3	1,97,628	30.9	5.3	-0.8	15.3

Fund Flows & Industry Trends

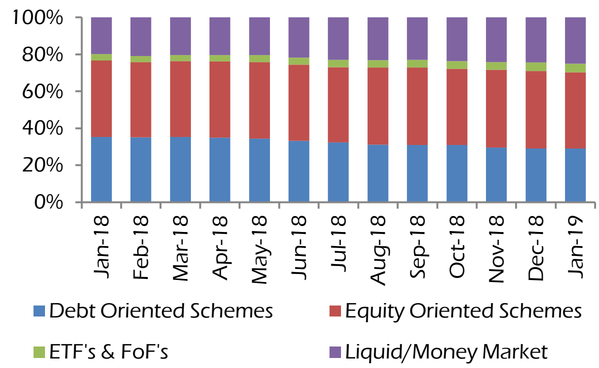
Assets managed by the Indian mutual fund industry have grown from Rs. 23.17 trillion in February 2018 to Rs. 24.25 trillion in February 2019. That represents a 4.66% growth in assets over February 2018.



Assets are measured as average assets per month

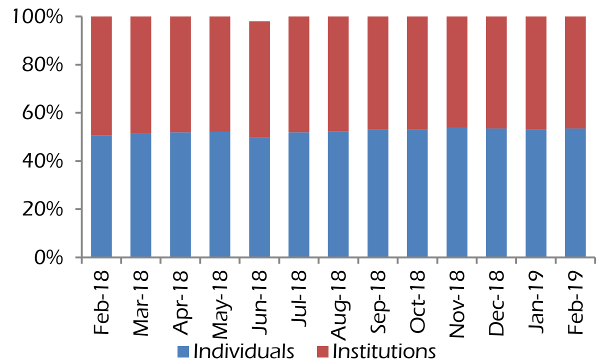
The proportionate share of equity-oriented schemes is now 41.1% of the industry assets in February 2019, up from 40.8% in February 2018.

The proportionate share of debt-oriented schemes is 29.1% of industry assets in February 2019, down from 35.1% in February 2018



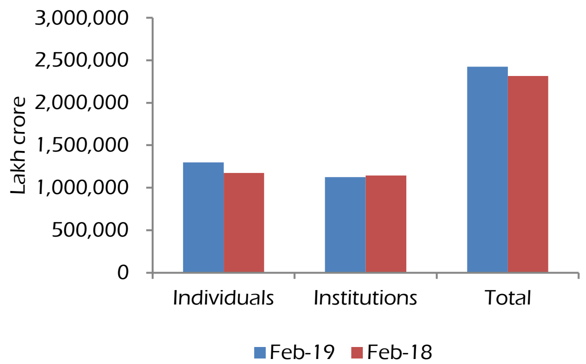
Individual investors now hold a higher share of industry assets, i.e. 53.5% in February 2019, compared with 50.7% in February 2018.

Institutional investors account for 46.5% of the assets, of which corporates are 90%. The rest are Indian and foreign institutions and banks.



The value of assets held by individual investors in mutual funds increased from Rs.11.74 lakh cr in February 2018 to Rs.12.98 lakh cr in February 2019, an absolute increase of 10.54%.

The value of Institutional assets decreased from Rs.11.43 lakh cr to Rs.11.27 lakh cr, a decrease of 1.4%.



Source; AMFI

Global Markets Performance

Developed Markets

Country	Ticker	3M	6M	1YR	3YR
US	SPX Index	12.6	1.6	13.0	14.5
UK	UKX Index	9.3	5.2	8.1	10.7
Singapore	STI Index	5.6	5.6	-0.1	9.6
Japan	NKY Index	7.5	-6.3	2.4	13.4
Hong-kong	HSI Index	14.3	15.9	3.1	18.2
Germany	Dax Index	9.8	-0.1	-2.4	7.5
Canada	SPTSX Index	11.7	5.2	11.1	10.2
Australia	AS51 Index	9.5	5.9	13.3	14.3
Italy	FTSEMIB Index	14.0	9.2	-2.6	11.3
France	CAC Index	14.0	3.5	7.3	11.9
Spain	IBEX Index	7.7	3.9	1.0	8.1

Emerging Markets

Country	Ticker	3M	6M	1YR	3YR
Malaysia	FBM100 Index	1.7	-4.2	-6.9	2.6
Brazil	IBOV Index	4.0	13.1	16.9	24.6
China	SHSZ300 Index	32.1	23.7	7.9	10.8
Russia	MXRU Index	9.6	9.7	22.1	18.4
Indonesia	LQ45 Index	2.7	12.6	2.3	9.3
Taiwan	TWSE Index	11.4	3.7	3.6	12.6
South korea	KOSPI Index	7.5	0.2	-7.2	6.0
Thailand	SET50 Index	4.5	-0.0	-2.2	11.5
Mexico	MEXBOL Index	4.4	-5.5	-3.3	2.3
India	Nifty Index	7.0	13.1	13.2	16.9
South Africa	TOP40 Index	10.7	9.1	8.0	7.7

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Credit Risk: Debt securities are subject to the risk of the issuer's inability to meet the principal and interest payments on the obligations and may also be subject to the price volatility due to factors such as interest sensitivity, market perception, or the credit worthiness of the issuer and general market risk.

Acts of State, or sovereign action, acts of nature, acts of war, civil disturbance are extraneous factors which can impact your investments.

Mutual Fund Risk: This risk arises from investing in units of Mutual Funds. Risk factors inherent to equities and debt securities are also applicable to investments in mutual fund units. Further, scheme specific risk factors of each such underlying scheme, including performance of their underlying stocks, derivatives instruments, stock lending, off-shore investments etc., will be applicable in the case of investments in mutual fund units. In addition, events like change in fund manager of the scheme, take over, mergers and other changes in status and constitution of mutual funds, foreclosure of schemes or plans, change in government policies could affect performance of the investment in mutual fund units.

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ELARA WEALTH

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L&T FINANCE LIMITED

PUBLIC ISSUE OF SECURED REDEEMABLE NON-CONVERTIBLE DEBENTURES

Public issue by the company of Secured redeemable non-convertible debentures of face value of ₹ 1,000 (Indian Rupees one thousand) each ("ncds/ secured ncds") for an amount upto ₹. 50,000 lakhs (indian rupees fifty thousand lakhs) ("base issue size") with an option to retain oversubscription up to ₹. 50,000 lakhs (indian rupees fifty thousand lakhs) aggregating up to 1,0000,000 ncds amounting to ₹ 1,00,000 lakhs ("Tranche 2 issue")

Issue Brief on the basis of Prospectus filed with Stock Exchanges

Issuer	L&T Finance Limited
Nature of the instrument	Secured Redeemable, Non-Convertible Debentures
Mode of the issue	Public issue
Issue Open / Close Date	Opens: **Monday April 8, 2019** Closes: Thursday April 18, 2019
Lead Managers	**Edelweiss Financial Services Limited** and Others
Bond Trustee	Catalyst Trusteeship Limited (earlier known as GDA Trusteeship Limited)
Depositories	NSDL and CDSL
Registrar to the Issue/ Registrar	Link Intime India Pvt. Ltd.
Issue Size	Base Issue Size: Rs. 500 Crs Option to retain Oversubscription amount: Rs. 500 Crs Tranche 2 Issue Size: Rs. 1000 Crs

Coupon

Series	I	II	III*	IV	V	VI	VII
Frequency of Interest Payment	Annual	NA	Annual	Monthly	NA	Annual	Monthly
Tenor	3 years	3 years	5 years	5 years	5 years	8 years	8 years
Coupon (% per annum) for NCD Holders in Category I & II	8.70%	NA	8.80%	8.48%	NA	8.85%	8.52%
Coupon (% per annum) for NCD Holders in Category III & IV	8.90%	NA	9.00%	8.66%	NA	9.05%	8.70%
Effective Yield (% per annum) for NCD Holders in Category I & II	8.69%	8.70%	8.79%	8.81%	8.80%	8.84%	8.86%
Effective Yield (% per annum) for NCD Holders in Category III & IV	8.89%	8.90%	8.99%	9.00%	9.00%	9.04%	9.05%
Amount (Rs / NCD) on Maturity for NCD Holders in Category I & II	₹ 1,000	₹ 1,284.66	₹ 1,000	₹ 1,000	₹ 1,525.27	₹ 1,000	₹ 1,000
Amount (Rs / NCD) on Maturity for NCD Holders in Category III & IV	₹ 1,000	₹ 1,291.77	₹1,000	₹ 1,000	₹ 1,539.36	₹ 1,000	₹ 1,000

Issue Price (in ₹)	₹ 1,000 per NCD
Face value	₹ 1,000 per NCD
Minimum Application size and in multiples of NCD thereafter	₹ 10,000/- (10 NCD) and in multiple of ₹ 1,000/- (1 NCD) thereafter
Credit ratings	**[ICRA] AAA with Stable Outlook, CARE AAA with Stable Outlook and IND AAA with Stable Outlook**
Listing	The NCDs are proposed to be listed on BSE & NSE. NSE shall be the Designated Stock Exchange for the Issue. The NCDs shall be listed within 6 (six) Working Days from the date of Issue Closing Date.
Trading mode of the instrument	In dematerialised form only